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SALE OF AMERICAN SECURITIES IN FRANCE.

BY FRANK D. PAVEY.

IN connection with a recent negotiation with French bankers I found it necessary to investigate the question of the sale of American securities in France. This question is of interest to American bankers and promoters who have securities or enterprises for sale, and to French bankers and investors who are constantly seeking new channels for the safe and profitable investment of the great savings of the French people. It is estimated that the savings of the French people available for investment amount to \$400,000,000 yearly. It is the opinion of men well informed upon the subject that the French market would absorb American securities to the amount of \$100,000,000 a year if American bankers and corporations would comply with the requirements of the French law in regard to the sale of foreign securities in France, and if the form and character of the securities were made to conform to the ideas and customs of French bankers and investors.

There are no insuperable legal difficulties in the way of the introduction and sale of American securities in France. This is particularly true in regard to bonds, for reasons which will appear in the course of this article. The payment of the taxes required by law on the issue and sale of securities in France imposes a burden upon the business which must be paid out of the profits. These taxes are as follows:

1. *Droit de timbre.* This is a stamp tax on the issue of securities by a corporation. In the case of a foreign corporation, it is collected only on those securities which the corporation proposes to offer for sale in France. It may be paid in one instalment or by annual payments during the life of the corporation issuing the securities. If paid annually, the tax is 6 centimes on 100

francs of nominal value. This is equivalent to 6 cents on \$100 of par value, or \$6 upon 100 shares of the par value of the par of \$100 each. On an issue of \$1,000,000 of securities for sale in France this annual charge is \$600. In the case of a French corporation, if the life of the corporation does not exceed ten years, this tax may be paid in one payment of 60 centimes on each 100 francs of nominal value; 60 cents on each \$100 of par value. If the life of the corporation exceeds ten years, the tax may be paid in one instalment of 1 franc 20 centimes on each 100 francs of nominal value; \$1.20 on each \$100 of par value. If a foreign company pays this tax in one instalment, the rate is higher, being two per cent. of the nominal value, or \$2 on each \$100 of par value. It is the only point in which the taxes on the securities of a foreign corporation are greater than the taxes on the securities of a French corporation.

2. *Impôt sur le revenu.* The dividends on shares and the interest on bonds are subject to an annual tax of four per cent. on the amount of the dividends or interest. This is a tax of four per cent. on incomes derived from the securities of corporations. In the case of a bond of \$1,000 paying interest at five per cent., this tax will amount to \$2 yearly. The net income will be 4.8 per cent. instead of 5 per cent. This tax is also levied on the annual payments for amortization of the principal by means of a sinking fund.

3. *Droit de transmission.* This is a tax upon the transfer of securities. In the case of securities payable to bearer, this tax is levied not as a tax on each transfer, but as an annual tax on the right of transfer, and amounts to 20 centimes for each 100 francs of value. This is equivalent to 20 cents on each \$100 of value—one-fifth of one per cent. of the value of the securities. This value is intended to be the actual value and is based on the average price of the security during the preceding year. If the securities are "*nominatif*"—that is, payable to a person named in the certificate—the tax is levied on the actual transfer and amounts to 50 centimes on each 100 francs (50 cents on each \$100) of the value indicated by the last quoted price.

The question whether it is more advantageous for a French investor to have a security payable to bearer or to a person named in the certificate depends on the permanence of his investment. If he knows that he will keep his investment more than two

and a half years, he can afford to have it "*nominatif*." Most investors do not wish to have securities that they cannot freely sell at any time on a plane of equality with other holders of the same securities. This presents one difficulty to the sale of American shares of stock in France. American corporations issue shares of stock to persons named in the certificates. In the case of the Utah Copper Company and the United States Rubber Company, the French bankers adopted the device of depositing the shares with a Trust Company in New York and issuing certificates of deposit entitling the bearer to all dividends and to the certificates of stock on surrender of the certificates of deposit.

Foreign corporations are required to appoint a responsible representative acceptable to the Minister of Finance who will guarantee the payment annually of all three taxes.

The French Government does not make it difficult for a foreign corporation to sell its securities in France so far as the payment of taxes is concerned. The principal difficulty is the practical one of placing American securities in the hands of French investors after the taxes have been paid and all practical requirements as to the form of securities and legal requirements in regard to the registration of the corporation have been fulfilled.

This practical difficulty in regard to the placing of foreign securities in the hands of actual investors grows out of the organization of the business of investments in France. Formerly there existed throughout France many private bankers through whom individual investors made their purchases of stocks and bonds. Some still exist, but in general these local private bankers have been driven out of business by the organization of large central banks (*Sociétés de Crédit*) with many agencies or branches. This system of organization exists in all the principal cities of France. The Crédit Lyonnais, with a capital of 250,000,000 francs, has its principal office and forty-four agencies in Paris and nine agencies in the suburbs of Paris. The Comptoir National d'Escompte de Paris, with a capital of 200,000,000 francs, has its principal office and thirty-four agencies in Paris and thirteen agencies in the suburbs of Paris. The Société Générale, with a capital of 300,000,000 francs, has its principal office and fifty-four agencies in Paris and thirty-three agencies

in the suburbs of Paris. Each has one or more agencies at Bordeaux, Lille, Lyon, Marseilles, Nantes, Toulouse and elsewhere.

The organization of these great banks has had the advantage of giving to the French people the benefits of greater conservatism in the recommendation of securities to French investors. This advantage has been purchased, however, at the cost of a disadvantage. It has had the double effect of reducing the income received by French investors in stocks and bonds and of depriving enterprising Frenchmen of the use of French capital for the establishment of new and small industries. Formerly the local private bankers could and would make a personal investigation of a new or small industry and recommend to their clients to take a share in such an enterprise if they deemed it worthy of their approval. Among such enterprises there will be always many failures due to bad judgment or bad direction. These failures impose losses upon the investors who purchase shares of the enterprises which fail. Investors in those which are successful receive much larger returns on their investments. The rates of interest and dividends in such enterprises are very much larger than those paid by the bonds and stocks sold to their customers by the great banking companies which have absorbed the business of these local private bankers. The manager of a branch of a great bank can be entrusted with the responsibility of discounting commercial paper and making loans upon securities which have been approved by the central office. The Board of Directors will not in general entrust to the manager of a branch the discretion of making investments in new and small enterprises. The business is not large enough to command the attention of the central office. The result is that the small French industries get little assistance from the great French banks.

In order, therefore, to effect the immediate sale of any very large amount of foreign securities to French investors, it is necessary to secure the co-operation of one or more of these great banking institutions or of one or more of the large business banks (*banques d'affaires*) which follow the general leadership of the great institutions so far as their business permits. Smaller issues of securities may be sold through the medium of smaller business banks or private bankers. The process is slower, but the business is on the increase. The higher rate of interest obtainable in such securities appeals to the thrift, but excites the fear, of investors.

Another difficulty which confronts the foreign corporation seeking to sell securities in France is the question of the admission of the securities to quotation on an exchange. The French investor may intend to keep his securities, but he likes to know that he can sell them and at what price.

Some banking institutions maintain an arbitrary rule that they will not offer for sale to their clients securities which do not secure the privilege of official quotation on the Bourse. Others are less strict in their requirements and are willing to offer for sale securities which have been admitted to quotation on the "Coulisse." This calls for an explanation of the character of the Bourse and the "Coulisse," and of the objections which are made to the admission of American securities to quotation in the French market.

The Bourse is an official organization. It was originally created in 1724. The members of the Bourse are designated as "*agents de change*" and are "ministerial officers." The number is limited to seventy at the present time. They elect each year a board of management (*chambre syndicale*) of seven members. The Minister of Finance has by law the right to prohibit the admission of any securities to official quotation on the Bourse. In practice the result is that no securities are admitted to sale and quotation on the "parquet" or floor of the Bourse without the approval of the Minister of Finance.

The market in the "Coulisse," or lobby, had an origin much similar to that of the market "on the curb" in New York. It grew, however, in importance and dignity until it has now a complete and perfect organization under the title of the "*Marché en Banque*" and transactions on the "Coulisse" are recognized by law. The new "Coulisse" is organized in three groups: (1) the market for Government bonds (*Marché de la Rente*); (2) the market for the sale of securities on time (*Marché des Valeurs à Terme*); (3) the market for the sale of securities for cash (*Marché au Comptant*). Each of these separate markets is under the direction of a separate committee or syndicate of bankers (*chambre syndicale*). A security may be admitted to quotation in one market without being admitted to the other.

Admission to quotation on the "Coulisse" does not require the official sanction of the Minister of Finance. The practice exists of ascertaining unofficially whether there is any reason of a fiscal or diplomatic character which leads the Minister of Finance

to object to the admission of a foreign security. His unofficial disapproval would probably lead to the refusal of admission of the security to quotation, although that fact might not be given as the reason.

The reasons which may lead a Minister of Finance to withhold his approval relate to questions which are difficult of general application to foreign securities. They may vary greatly at different times and in regard to different countries or different securities. They may relate to the character of the security. The Minister of Finance may consider them of too speculative a character to put before the French people with the stamp of his approval. They may relate to international commerce, international finance or diplomacy. The approval of a large volume of securities proposed from one country might be withheld because the Government of France for reasons of diplomacy wished to assist another Government in placing a large loan among French investors. The suggestion is made that at the present time it would be difficult to secure the approval of the Minister of Finance to the admission of any American securities to quotation on the Bourse by reason of the disturbance caused to French commerce and industry by the recent American tariff law. The character of these reasons is such that they cannot be anticipated from time to time and may suddenly change without reference to the intrinsic merits of the securities.

There are, however, objections to the admission of American securities to quotation on the Bourse and on the *Marché des Valeurs à Terme* of the "Coulisse" which are of a more permanent character:

1. Transactions on the Bourse in Paris commence at noon and close at three. There is a difference of five hours and ten minutes in time between Paris and New York. When the Bourse closes at three o'clock in the afternoon, it is ten minutes to ten o'clock in the forenoon at New York. The Stock Exchange in New York opens at ten and closes at three by New York time. In French time transactions in American securities on the Stock Exchange at New York commence at ten minutes past three and close at ten minutes past eight. In the event of a sudden rise or fall in the prices of American securities on the New York Stock Exchange, a considerable number of French brokers or speculators in American securities on the Bourse who happily closed their

business at three o'clock might find themselves insolvent at ten minutes past eight, having had no opportunity in the mean time to protect themselves by covering their contracts in their own market. The "*Agents de Change*" and their customers who are engaged in active speculation do not wish to subject themselves to this risk. Nominally, the same difficulty exists between London and New York. Practically the danger does not exist by reason of the custom in London of trading in American securities "in the Street" after the close of the Stock Exchange. Formerly there existed in Paris the "*Petite Bourse du Soir*" ("Little Bourse of the Evening"), but it was suppressed in 1892 in the process of the organization of the "*Coulisse*" in its modern form.

2. Another difficulty of a similar character is due to the practice of monthly or bimonthly settlements or "liquidations" on the Bourse and on the "*Coulisse*." The right to daily settlements between brokers and their customers does not exist in Paris. When a broker has given credit to another broker or customer by accepting and executing his order for the purchase or sale of securities, he must continue to extend his credit until settlement day. The customer may have two weeks or a month, as the case may be, in which to become insolvent before his creditor can make a test of his solvency by requiring a settlement. The French brokers and bankers regard American securities as subject to violent fluctuation. If these securities are admitted to sale on the Bourse and "*Coulisse*" they will be objects of speculation. The French bankers and brokers do not wish to take the risk of extending credit to customers who are speculating in securities of this highly inflammable character.

These two objections do not apply to the admission of securities to quotation on the *Marché au Comptant* (market for cash) of the "*Coulisse*."

3. Some large international banking-houses, having transactions both in New York and in Paris, are opposed to the general introduction of American securities to quotation on the Bourse or the "*Coulisse*." Their reason for this is that it introduces an additional element of fluctuation into the French market. At the present time the French market is mainly influenced by European conditions or considerations. If American securities were generally quoted on the Bourse a violent decline in the American market might cause a sympathetic decline in European

securities at a time when it would not otherwise occur. On the contrary, a decline in European securities due to European complications might and probably would be accompanied by an appreciation in the value of American securities due to the increased value of American agricultural and industrial products. As long as the two markets are kept separate, each constitutes an insurance against accidents in the other in favor of banking-houses having transactions in both.

It is difficult to make practical suggestions of a general character which will aid bankers and promoters in finding entrance to the French market. Each case will present new features. There are few precedents for the admission of American securities to quotation, either on the Bourse or the "Coulisse." The only American securities quoted on the Bourse are the Pennsylvania three-and-one-half-per-cent. bonds and the New York, New Haven & Hartford four-per-cent. bonds. The only American securities admitted to quotation on the "Coulisse" are the certificates of deposit of shares of the United States Rubber Company and the Utah Copper Company. It is reported by cable that the St. Louis and San Francisco general-lien five-per-cent. bonds have been approved for quotation on the "Coulisse."

In the case of new issues, bankers and promoters who wish to offer securities for sale in the French market will do well to lay the foundation for that purpose by the insertion of suitable clauses in the bonds and mortgage which will anticipate some of the difficulties.

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